

# Argentina | Automotive Situation 2020

December 2020

## Key messages



2020 will be a year to forget in many aspects. Specifically in the economic field, the COVID-19 crisis wrote one of the worst chapters of Argentina with **a collapse of GDP comparable to that of the 2002 crisis**.



**The automotive industry turned out to be one of the most affected economic sectors at the deepest moment of the lockdown** with a drop in its gross value added in 2Q20 of 66.5% YoY, almost at the same level as the contraction of Hotels, restaurants and leisure. However, the growing pressure on the FX market with a strong rise in parallel dollars and expectations of accelerated inflation, triggered the consumption of durable goods bouncing off the automotive sector in the second half of 2020.



In terms of financing, **pawn loans declined in general** and in particular those for automobiles. On the contrary, **pawn loans for machinery have been on the contrary** since 2018, rising in 3Q20, driven by the greater acquisition of agricultural machinery (tractors, seeders and harvesters), mainly in the Pampa Region.

## Key messages



Although there has been a **shift in consumption towards durable goods** (mainly automotive, construction and household equipment), their production shows a decrease in year-on-year terms that is partly explained by the accumulation of stocks.



**The sale of motor vehicles has increased in the most populated areas** in the last two years, which is a response to changes in people's purchasing power (since it involves greater accessibility) and in habits in the context of the pandemic (restrictions on public transport).



Despite the year-on-year decrease in imports, **the sector's trade balance returned to deficit** after the 2019 surplus, due to the retraction of the automotive export complex during 2020.



**By 2021 we forecast a recovery in the demand for automobiles in the domestic market** compared to 2020, although without much boost due to the worsening of vehicle affordability. We estimate a level of sales of around 420,000 units for the coming year based on our macroeconomic forecasts.

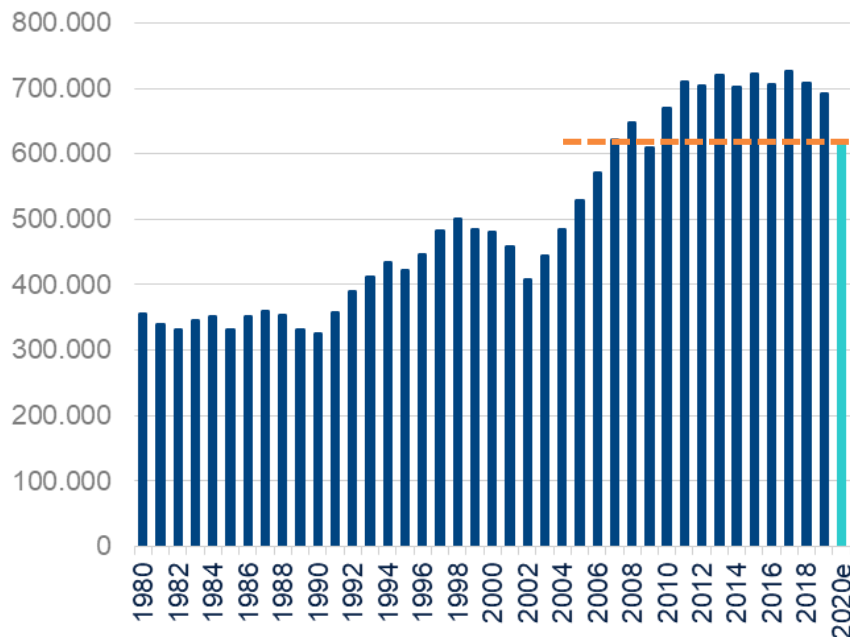
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# Argentina and the economy of distance

# The COVID-19 pandemic plunged Argentina's economy into one of its worst crises

## ARGENTINEAN GDP EVOLUTION

(IN MILLIONS OF ARS AT 2004 PRICES)

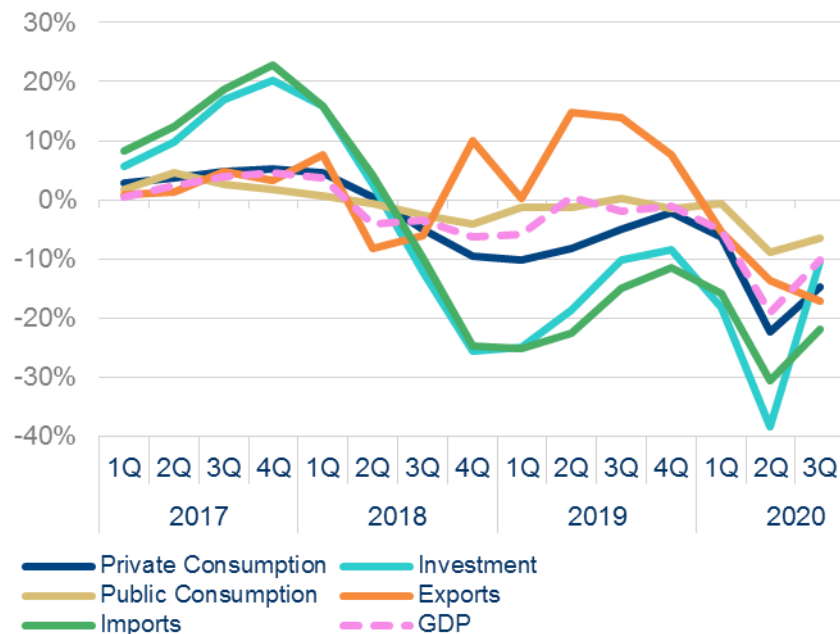


- Since 2018, the Argentine economy has been in a long recession, which was exacerbated by the world crisis of the coronavirus.
- The contraction of the GDP in 2020 is estimated at 11% YoY, a drop similar to that of the 2002 crisis, falling back to 2009 levels.
- All economic sectors were hit. Industry and commerce were not excluded from the consequences of the health measures taken in the framework of the COVID-19 pandemic.
- The early recovery of activity in 3Q20 is not enough to quickly put this chapter behind us.
- We estimate that GDP will return to 2019 levels by the first half of 2024.

# All components of aggregate demand were affected

## GDP BY COMPONENTS

(QOQ % CHANGE S.A.)



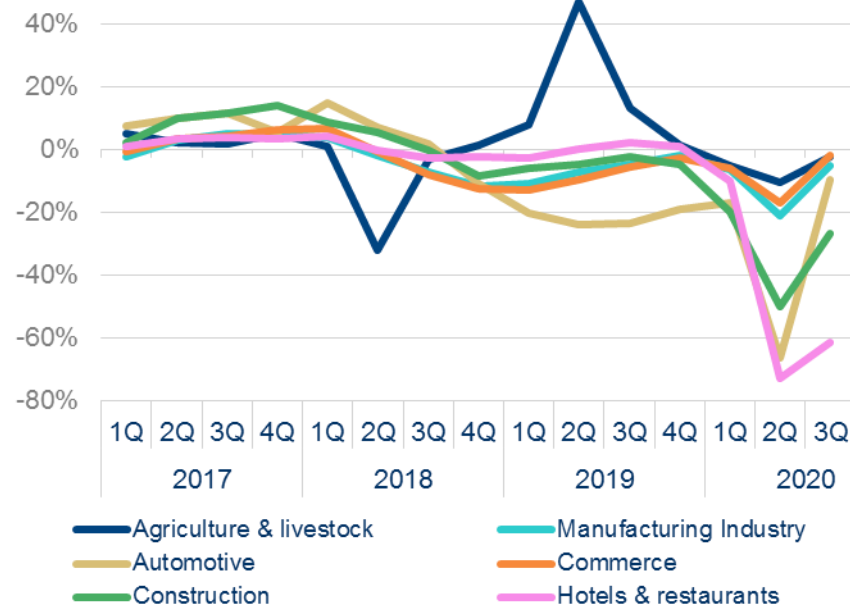
Source: BBVA Research and INDEC.

	YtD Change 3Q20 (%)
Private Consumption	-14.6
Investment	-22.4
Public Consumption	-5.4
Exports	-12.3
Imports	-22.8
<b>GDP</b>	<b>-11.8</b>

# The automotive industry was one of the hardest hit sectors in 2Q20

## GROSS VALUE ADDED (GVA) BY SECTOR

(YOY % CHANGE; CONSTANT ARS)



## GVA SELECTED INDUSTRIES – 2Q 2020

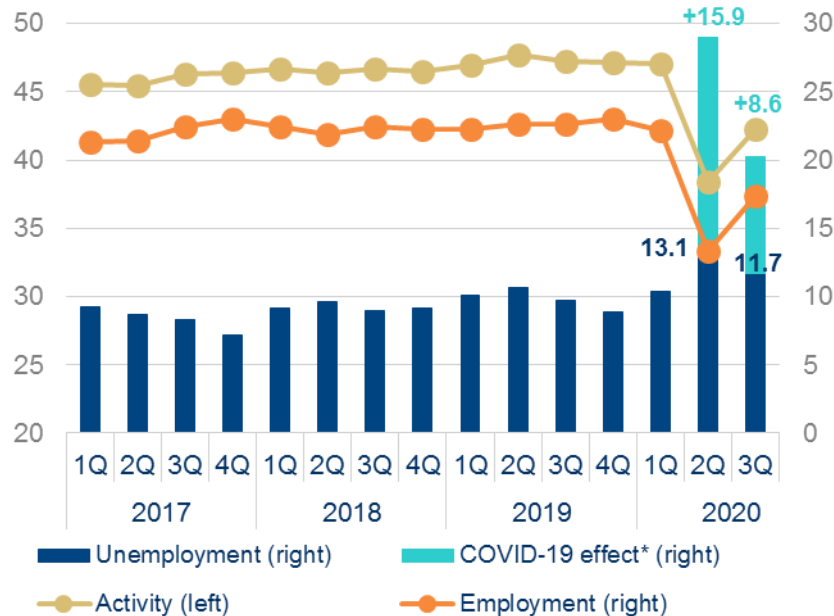
(YOY % CHANGE)



# The impact of social, preventive and obligatory isolation on unemployment was overshadowed in official statistics due to a strong fall of labor supply

## LABOR MARKET RATES (%)

(%)

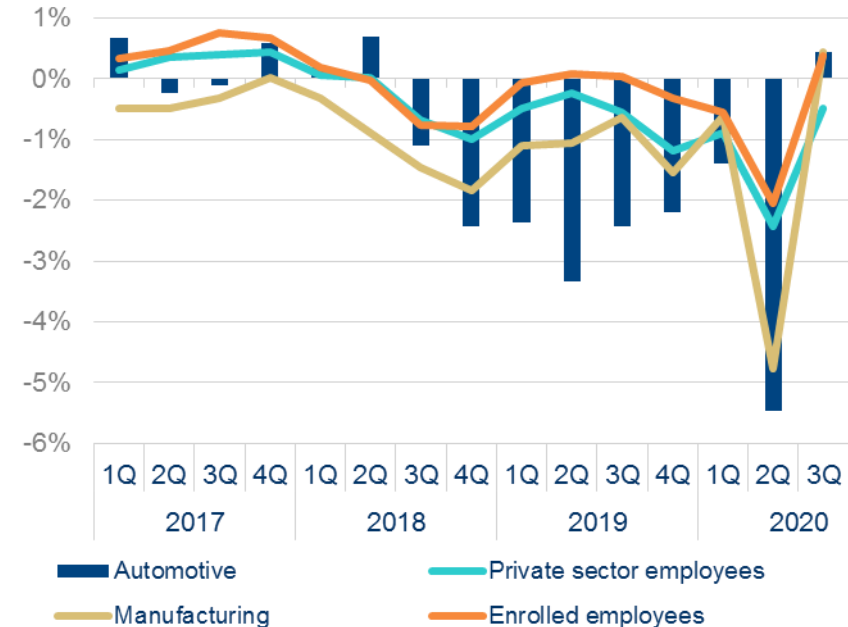


\* Unemployment measured with the pre-pandemic economically active population (Q1 2020 data)

Source: BBVA Research and INDEC.

## EVOLUTION OF REGISTERED EMPLOYMENT (QOQ % CHANGE S.A.)

(QOQ % CHANGE S.A.)



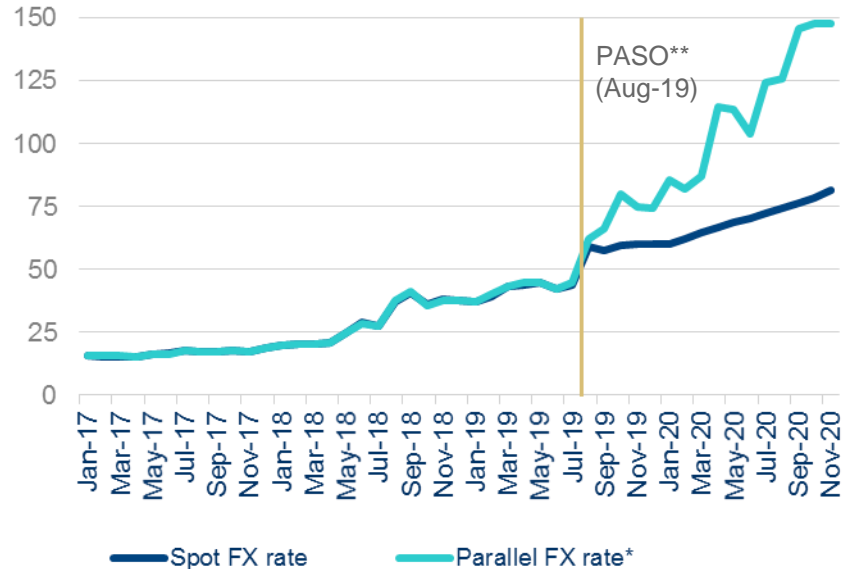
Source: BBVA Research and Ministry of Labor.



# The gradual increase of FX restrictions generate a widening FX premium

## FX RATE: SPOT AND PARALLEL

(FX RATE: ARS/USD)



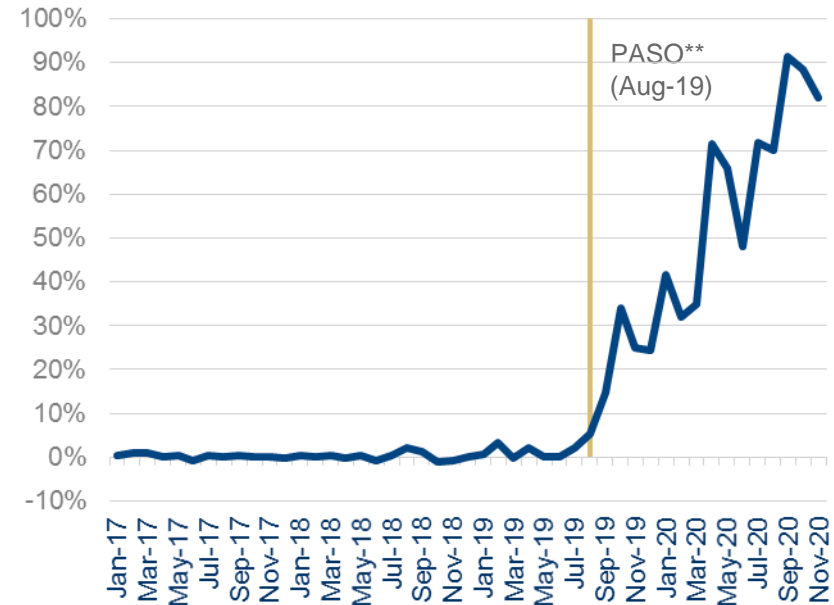
\* CCL: price resulting from operations through bonds

\*\* PASO: first round of presidential elections.

Source: BBVA Research and Central Bank.

## FX PREMIUM

(% OF PARALLEL PRICE WITH RESPECT TO THE SPOT FX RATE)

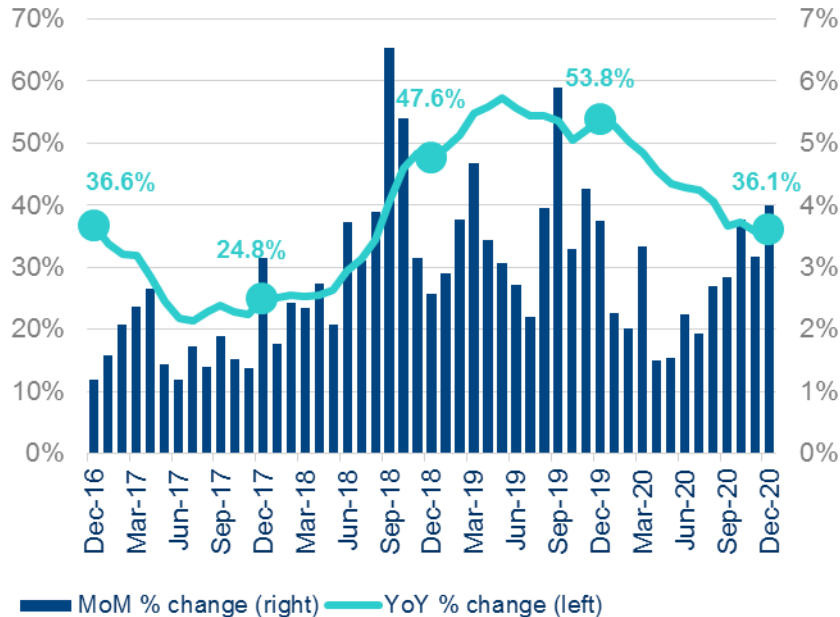


Source: BBVA Research and Central Bank.

# General inflation has been restrained in 2020 but the price of vehicles continues to accelerate even more

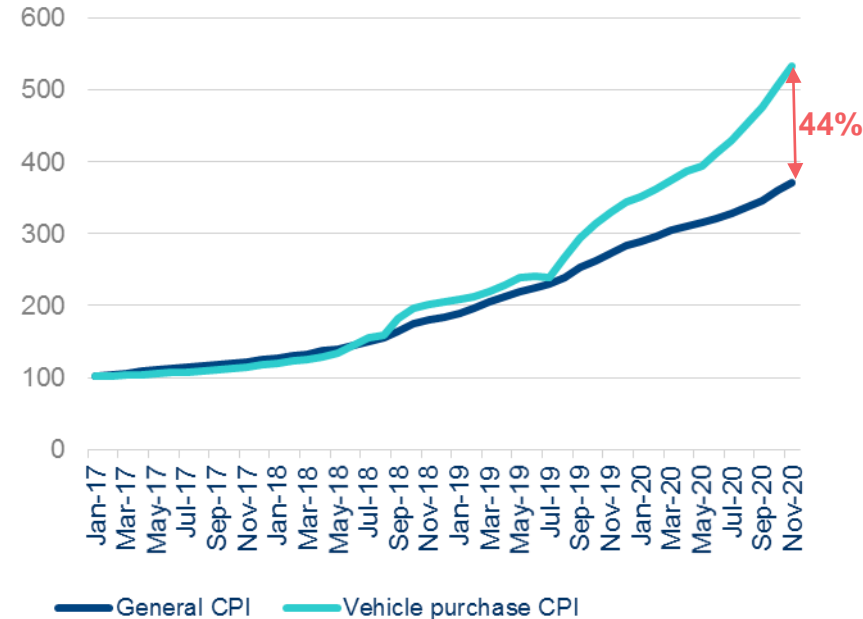
## CONSUMER PRICE INDEX EVOLUTION

(MOM % CHANGE AND YOY % CHANGE)



## GENERAL CPI VS. VEHICLE PURCHASE CPI

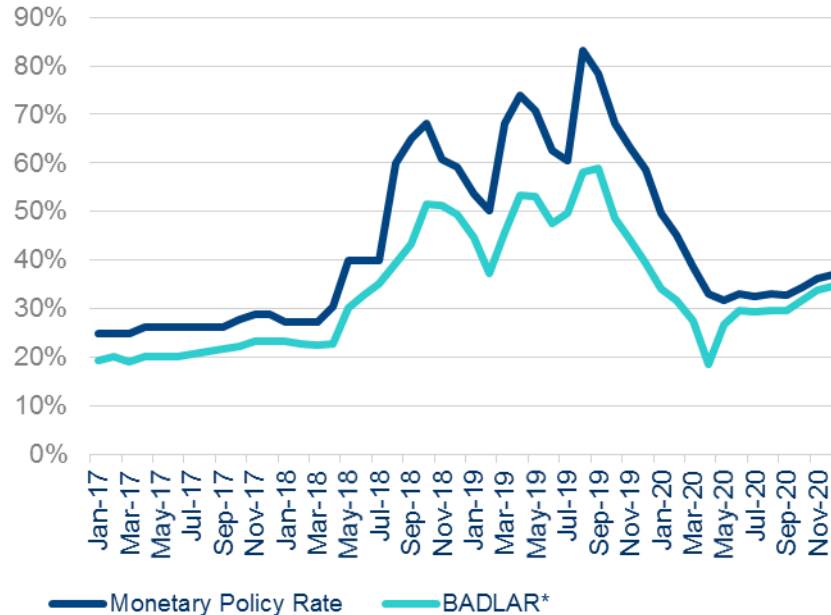
(BASE DEC. 2016 = 100)



# The timid interest rate increase promoted by the BCRA seems not to be enough to balance the effect of the strong monetary expansion of 2020

## MONETARY POLICY INTEREST RATE

(% NOMINAL ANNUAL RATE)

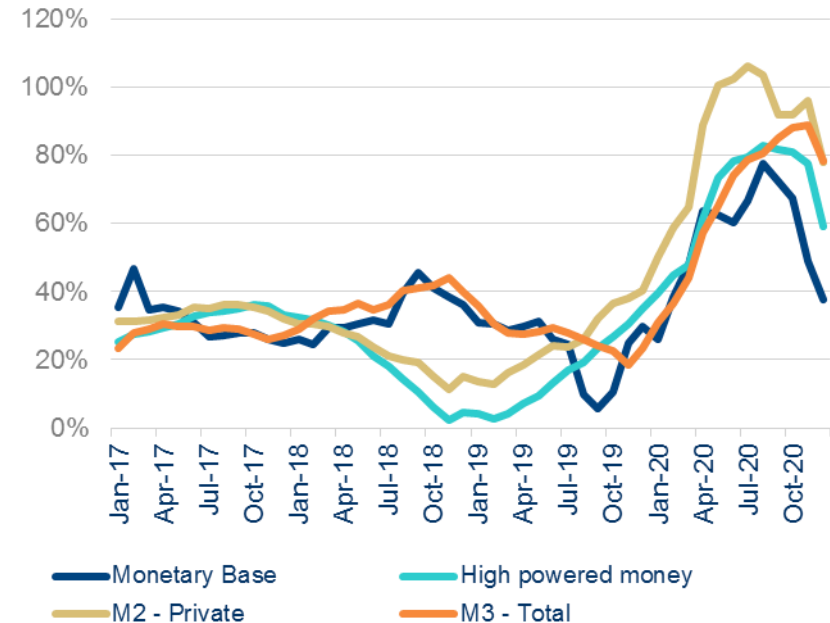


\* Buenos Aires Deposits of Large Amount Rate

Source: BBVA Research and Central Bank.

## MONETARY AGGREGATES

(YOY % CHANGE)

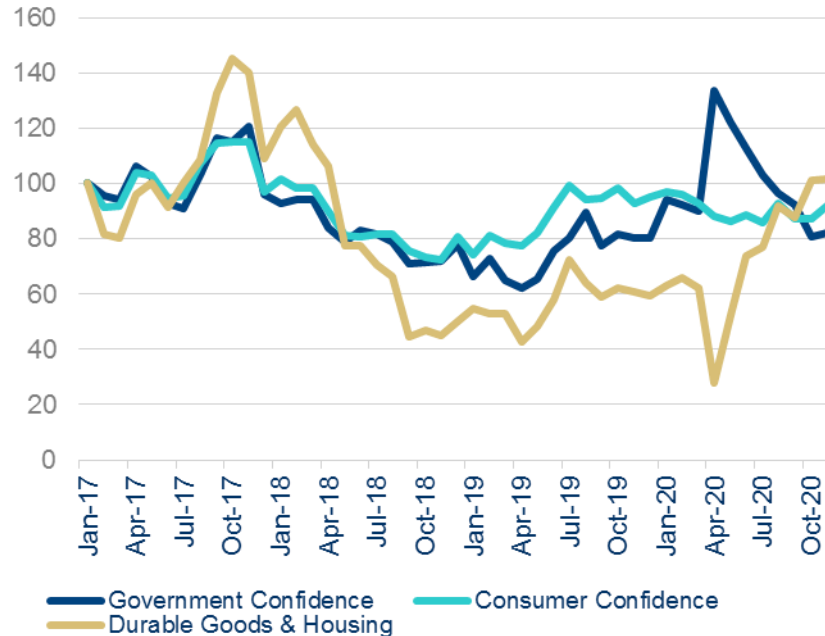


Source: BBVA Research and Central Bank.

# Exchange rate restrictions and high inflation expectations triggered automotive and construction sectors in 2H 2020

## CONSUMER AND GOVERNMENT CONFIDENCE

(BASE JANUARY 2017 = 100)

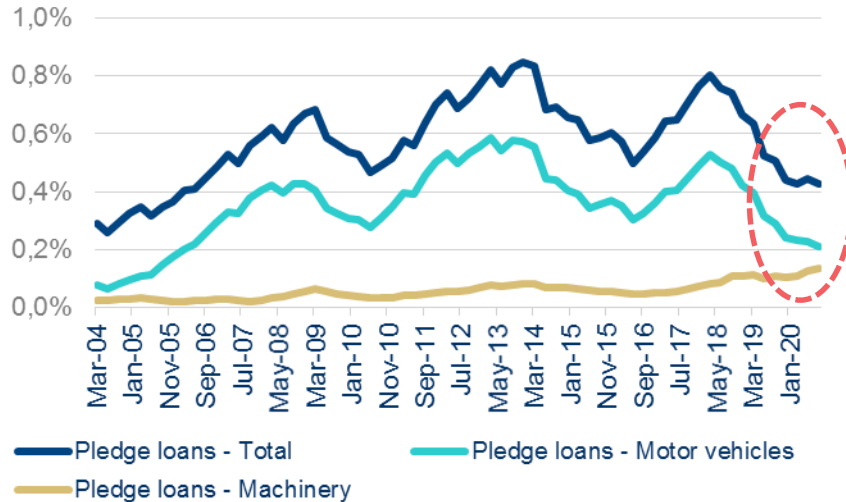


- Government and consumer confidence have shown some alignment until the outbreak of the pandemic, after which the current administration exponentially increased its positive image at the beginning of the lockdown. However, it quickly collapsed due to widespread dissatisfaction with the consequences of confinement.
- As a result of expectations of loss of purchasing power and the widening of the FX premium, durable goods have come to play an important role in recent months as a safeguard for value and in the face of progressively tighter restrictions in the foreign exchange market.

# Pledge loans declined to 2006 levels, except for machinery

## SHARE OF GDP OF PLEDGE LOANS (%)

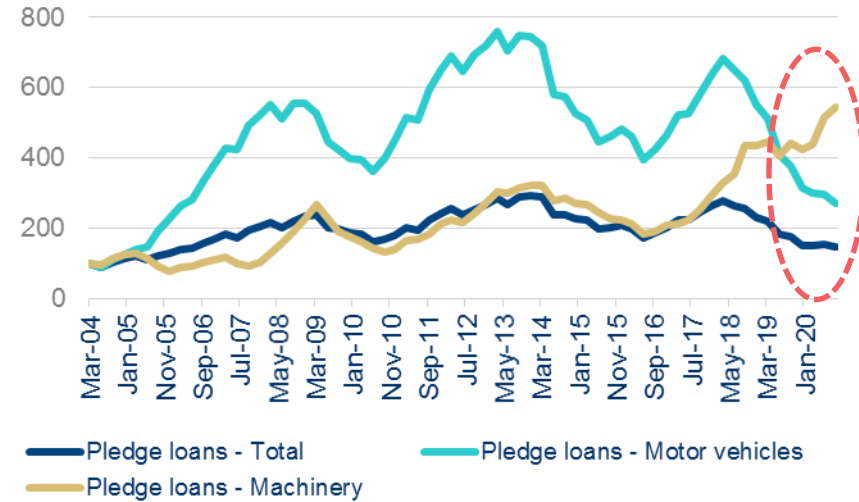
(%)



Source: BBVA Research and Central Bank.

## EVOLUTION OF PLEDGE LOANS BY TYPE

(BASE 1Q 2004 = 100)



Source: BBVA Research and Central Bank.

In the midst of the lockdown due to the coronavirus pandemic, stimulus plans were launched to some sectors. Particularly in the agricultural sector, "soft" official credits were made available to further boost production (the activity was considered essential, so it was not interrupted during the period of social isolation).

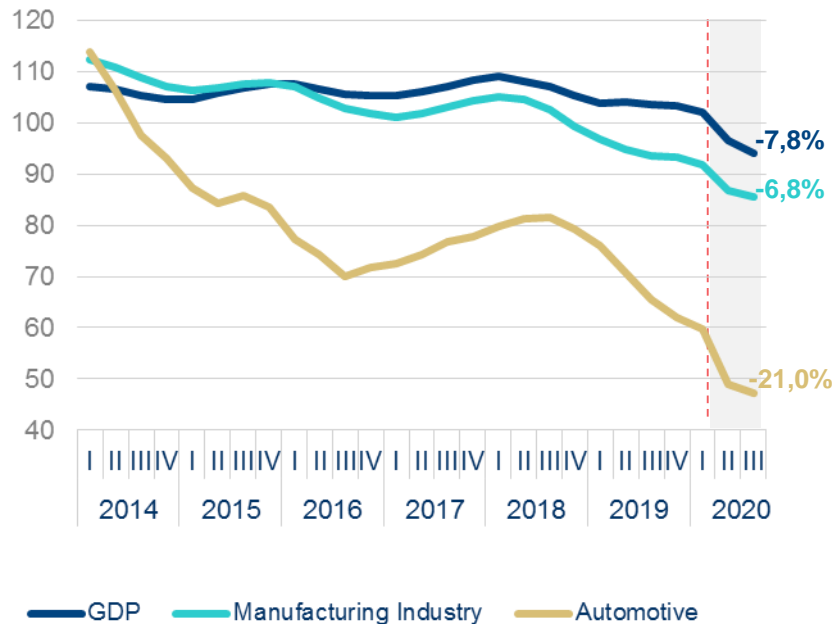
# 02

## The automotive sector in a confined year

# The pandemic reinforced the fall the automotive sector has been suffering since 2018, leaving exposed its greater sensitivity compared to the industry

## INDUSTRIAL AND AUTOMOTIVE GVA

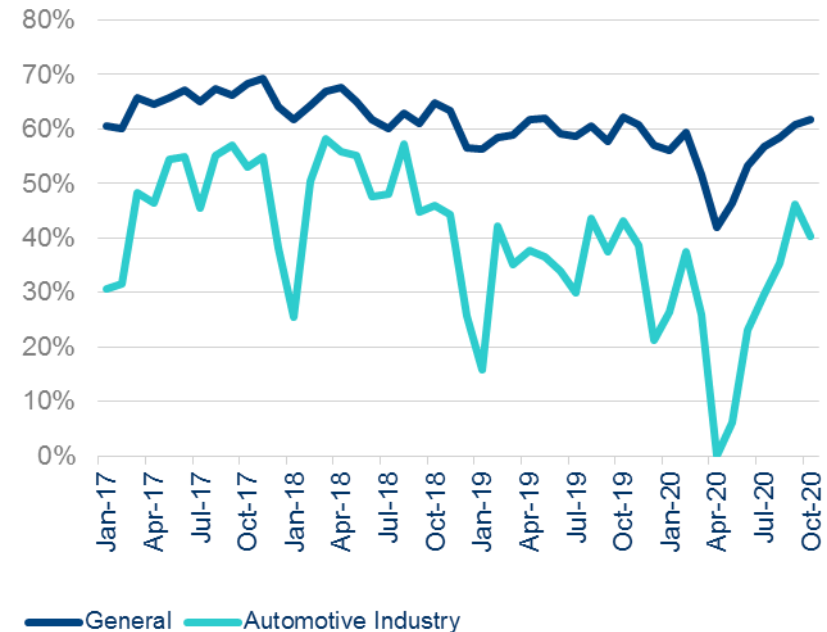
(ANNUAL MOVING AVERAGE; BASE 1Q 2014 =100)



Source: BBVA Research and INDEC.

## INSTALLED INDUSTRIAL CAPACITY UTILIZATION

(%)

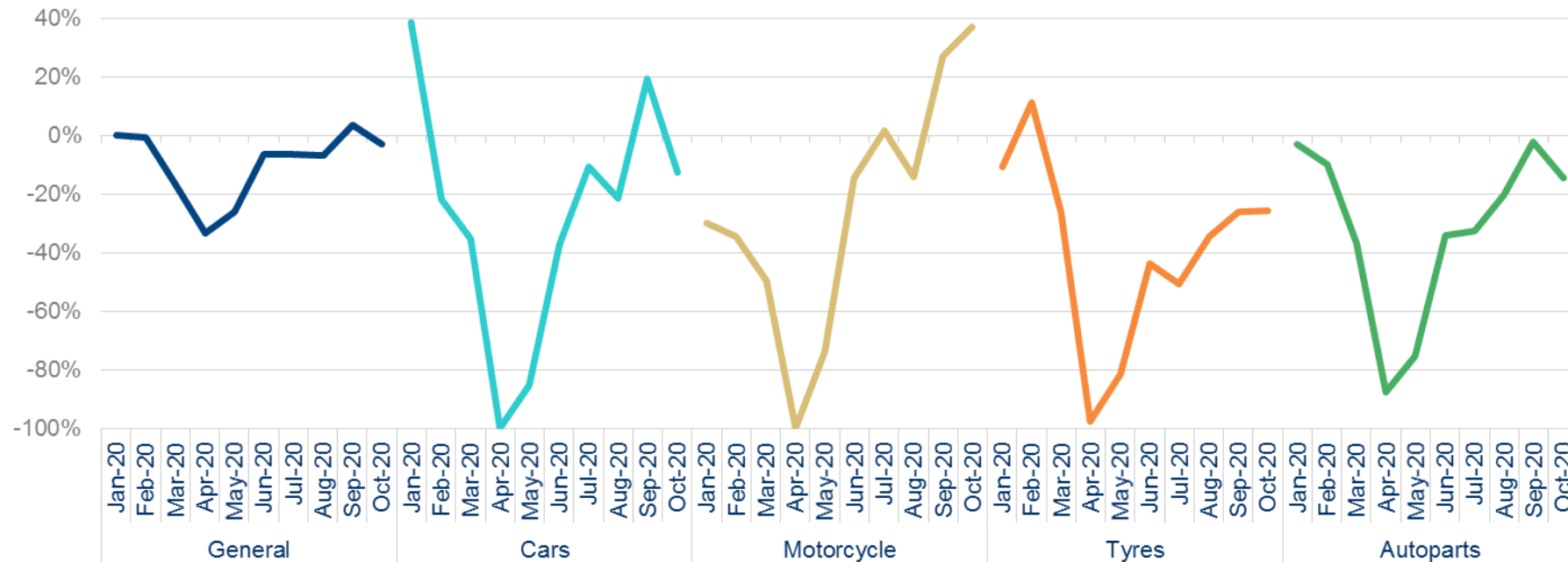


Source: BBVA Research and INDEC.

# General industrial production and that of the sector managed to recover from April's collapse, although its sustainability cannot yet be assured

## INDUSTRIAL PRODUCTION INDEX

(YOY % CHANGE)

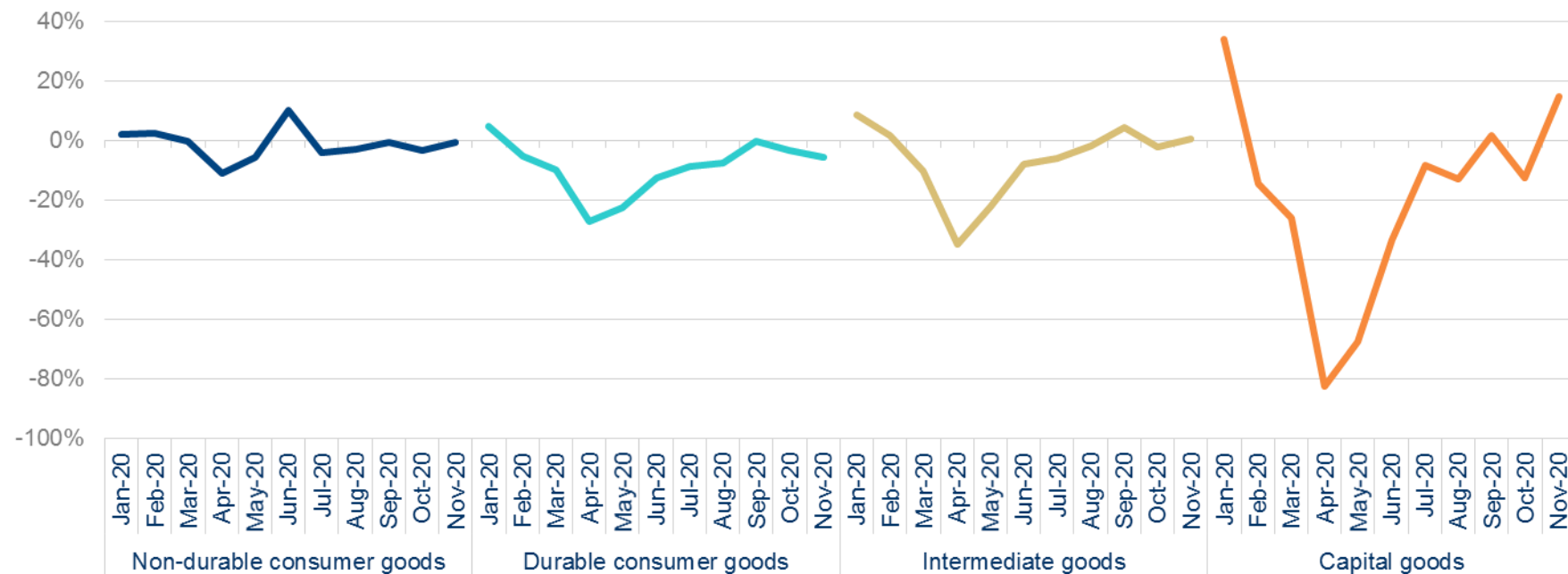




# After the rebound, durable goods production is trending downward and into negative ground

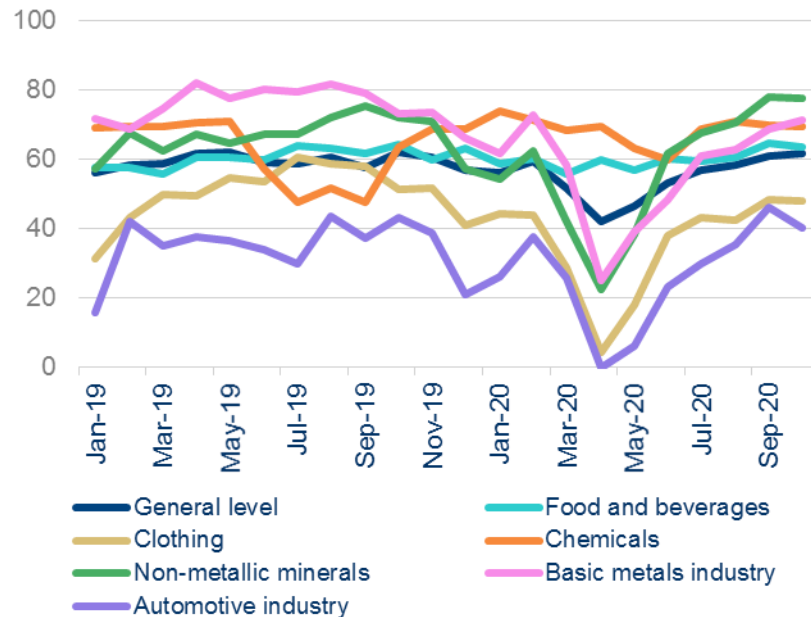
## INDUSTRIAL PRODUCTION INDEX BY TYPE OF GOOD

(YOY % CHANGE)



# Idle capacity in the automotive industry remains below 50% despite recovering from the setback in 2020

## INSTALLED INDUSTRIAL CAPACITY UTILIZATION (IICU) (%)

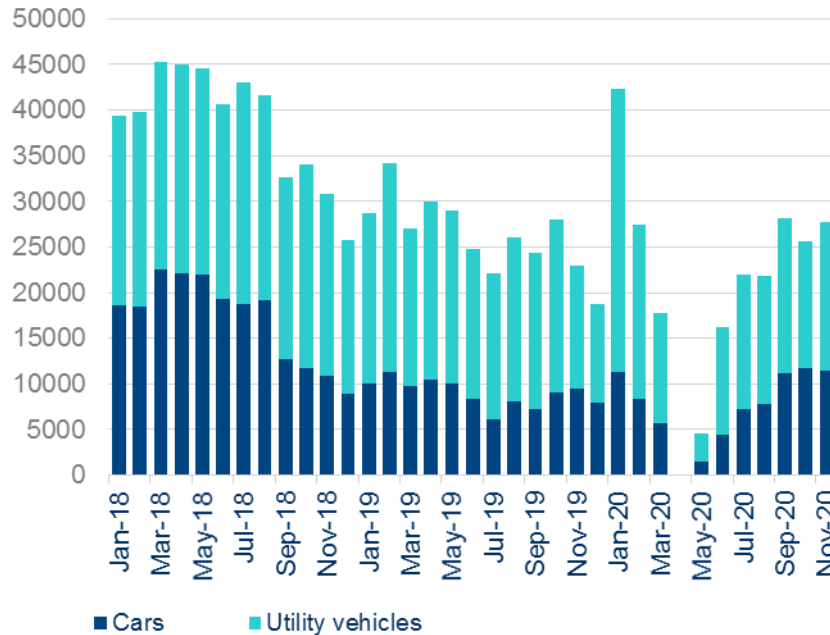


- Beyond the seasonal factors, **the automotive industry returned to 3Q19 IICU levels**, having been the most affected sector at the time of the strictest lockdown in this regard (factory closures, employee suspensions, reactivation with protocols, staff reductions in factories, etc.). On the contrary, the production of essential goods (food and chemicals) was favored.
- The increase in the automotive IICU responds, in part, to the normalization of activities but also to **the increase in sales due to the jump in the FX premium and restrictions in the FX market**, as well as the activities associated with construction (basic minerals and metals).

# The production of cars recovered the levels of 2019, which had been falling; the predominance of utility vehicles continues

## CARS AND UTILITY VEHICLES PRODUCTION

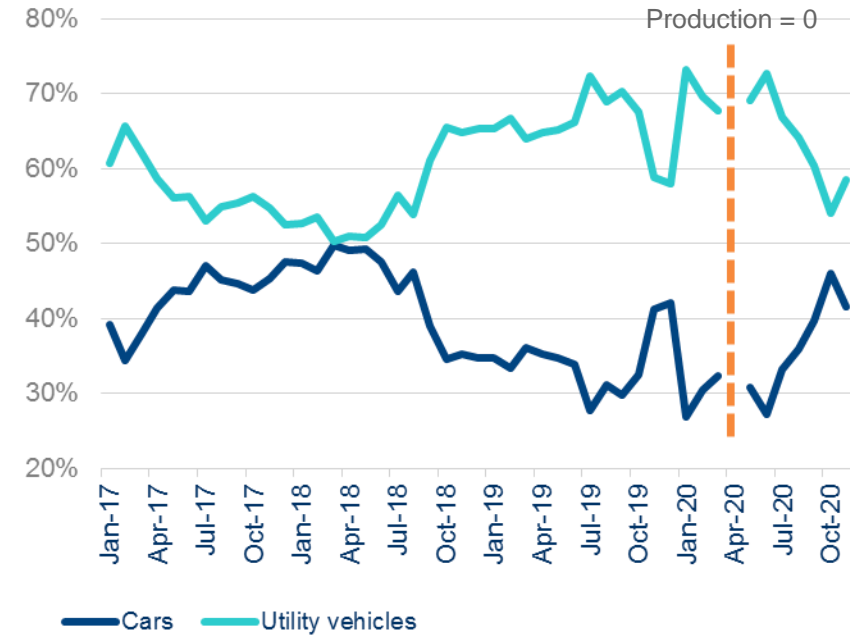
(IN UNITS; S.A.)



Source: BBVA Research and ADEFA.

## CARS AND UTILITY VEHICLES PRODUCTION

(% SHARE OF TOTAL)

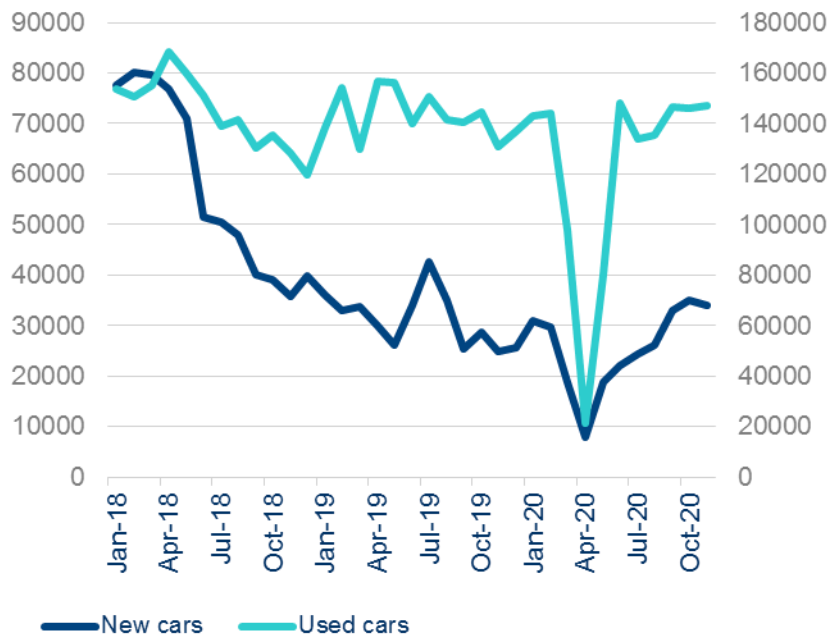


Source: BBVA Research and ADEFA.

## Except for the pandemic outbreak, used car sales have remained stable, unlike new car sales

### CARS SALES

(IN UNITS; S.A.)

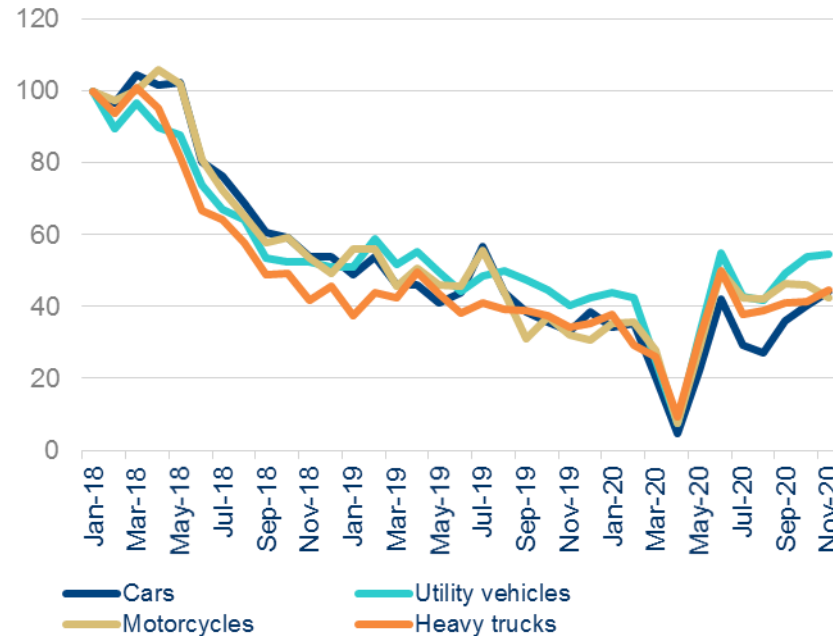


- Sales of new cars and utility vehicles collapsed during 2018 and 2019 mainly as a result of the erosion of purchasing power to an **all-time low in April 2020** when lockdown was felt in full force.
- On the contrary, **sales of used cars continue at their average levels of the previous two years**, since these types of vehicles are more affordable compared to the group of new cars.
- **Sales of 0Km have returned to pre-pandemic levels**, driven by the effect of the FX premium and restrictions in that market, which are pushing savers to take refuge in this type of durable goods.

# Car registrations contracted by an average of 50% during 2020 with a slight upturn in cars and small commercials vehicles in Q4

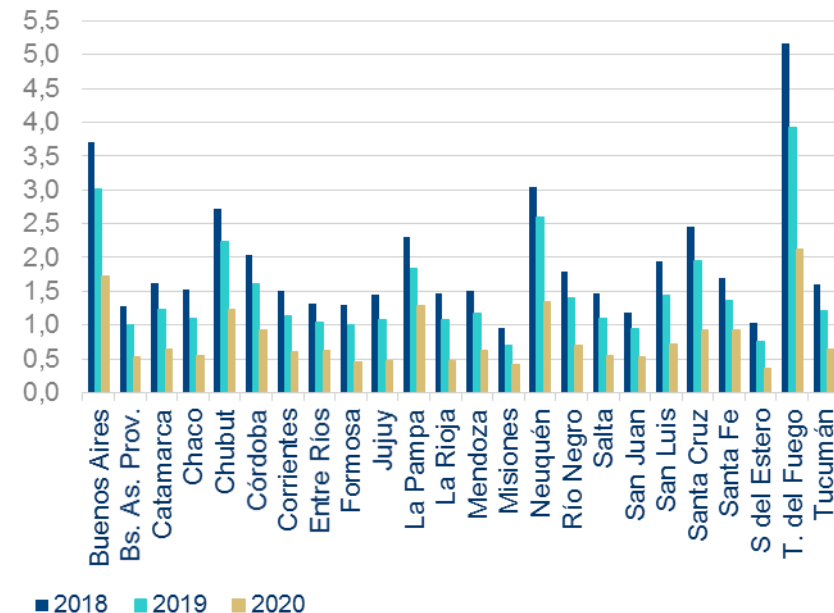
## REGISTRATIONS BY TYPE OF VEHICLE

(IN UNITS; S.A.)



## AVERAGE REGISTRATION PER PROVINCE

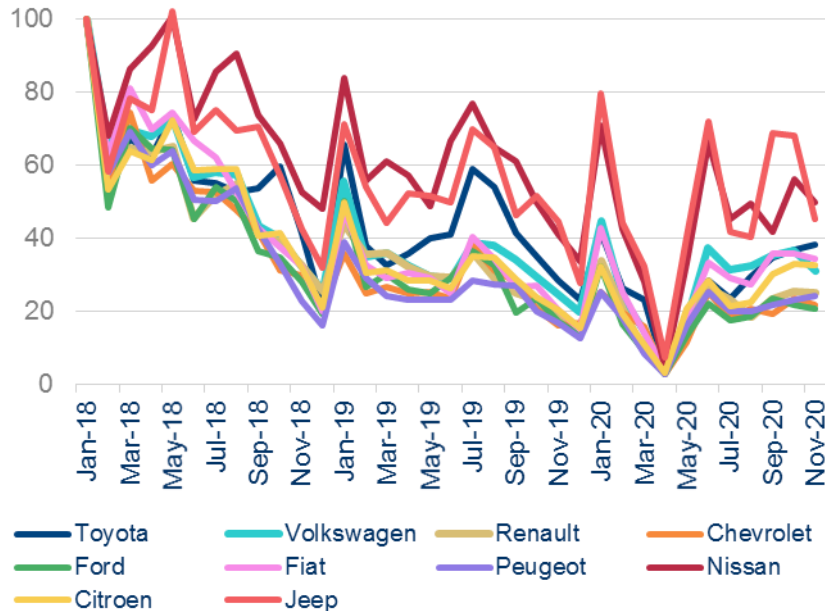
(PER THOUSAND INHABITANTS)



## However, the trend by brand of vehicle was not significantly modified

### LIGHT VEHICLES REGISTRATIONS BY BRAND

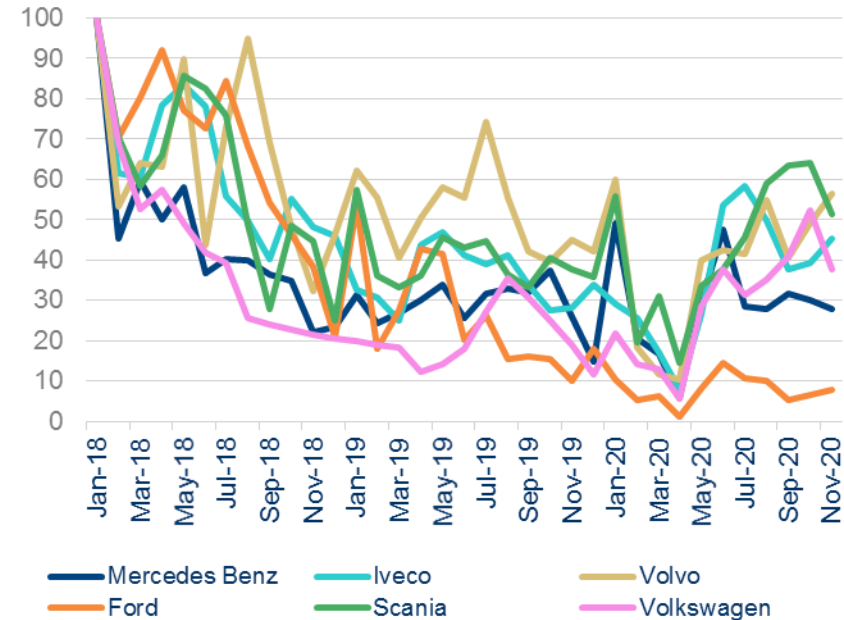
(BASE JANUARY 2018 = 100)



Source: BBVA Research and SIOMAA.

### HEAVY TRUCKS REGISTRATIONS BY BRAND

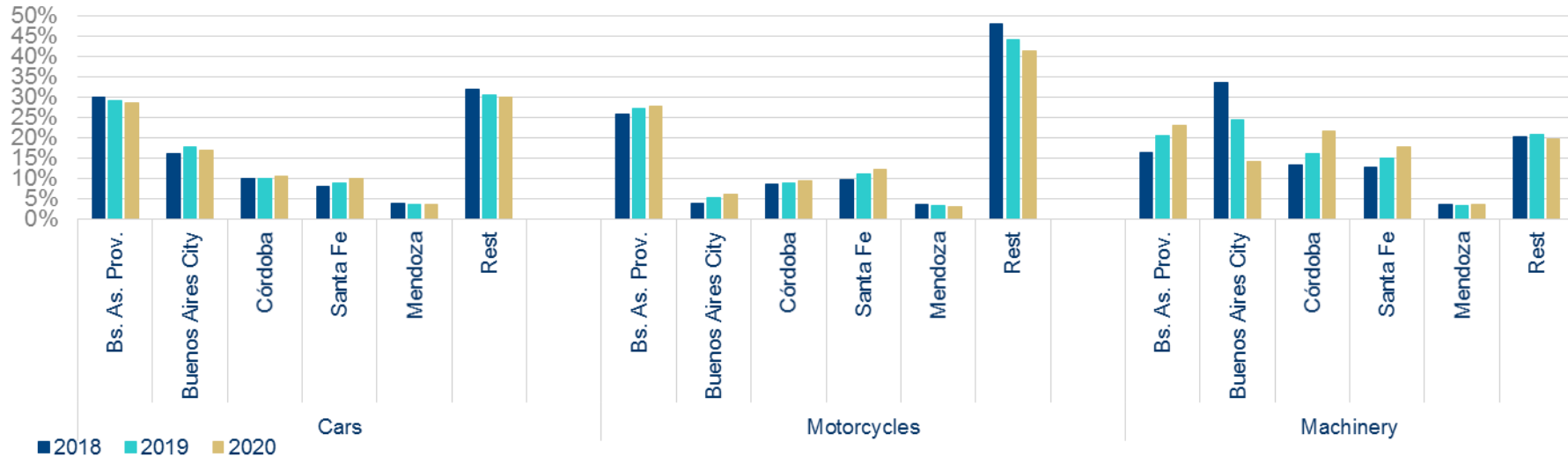
(BASE JANUARY 2018 = 100)



Source: BBVA Research and SIOMAA.

# The proportion of automotive purchases has changed its dynamics in some of the country's main districts

## INITIAL REGISTRATION BY JURISDICTION (AS % SHARE OF TOTAL REGISTRATION)

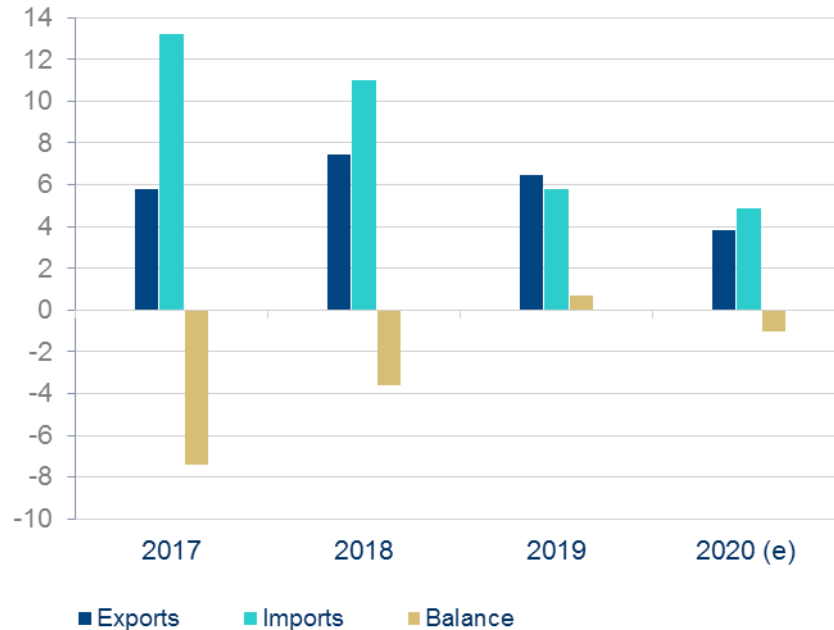


Source: BBVA Research and DNRPA.

In the most populated provinces, motorcycle sales have increased in the last two years, which responds to changes in people's purchasing power (easy affordability) and in habits in the context of the pandemic. Significant progress in machinery as an investment instrument in Pampa Region (Buenos Aires Province, Córdoba and Santa Fe) during 2020.

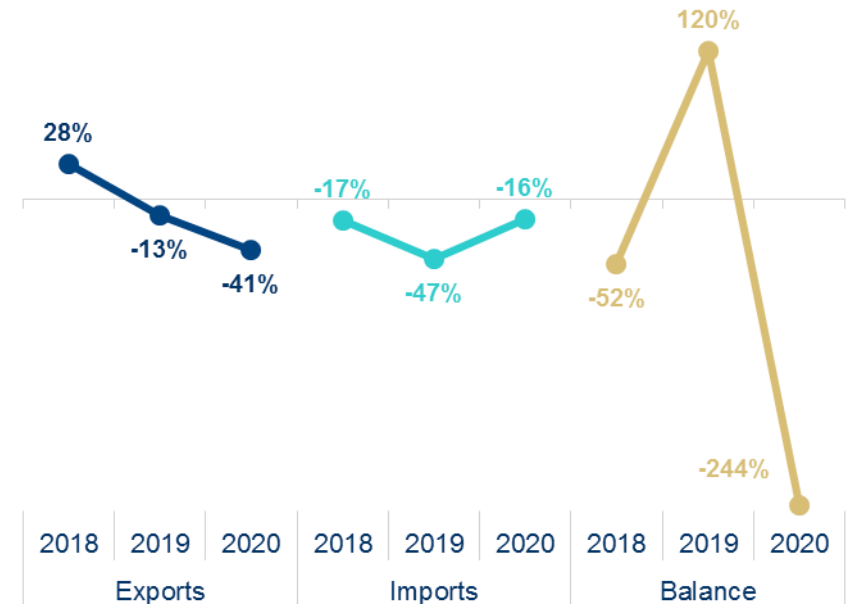
# The sector's trade balance reversed the surplus achieved in 2019, particularly due to a contraction in exports

**TRANSPORT MATERIALS TRADE BALANCE**  
(USD MILLION)



Source: BBVA Research and INDEC.

**TRANSPORT MATERIALS TRADE BALANCE**  
(YOY % CHANGE)



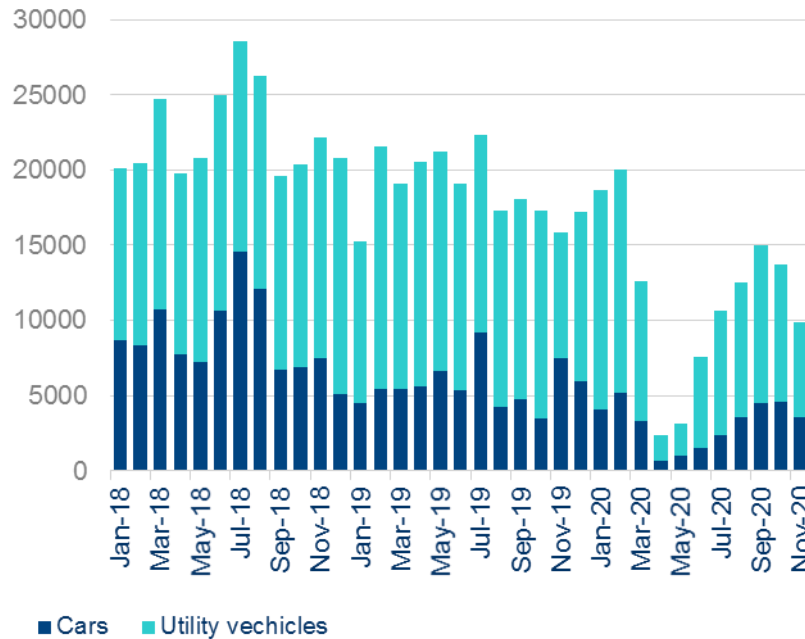
Source: BBVA Research and INDEC.



# Light vehicle exports are at historic lows, with utility vehicles accounting for about 70% of them

## EXPORTS OF CARS AND UTILITY VEHICLES

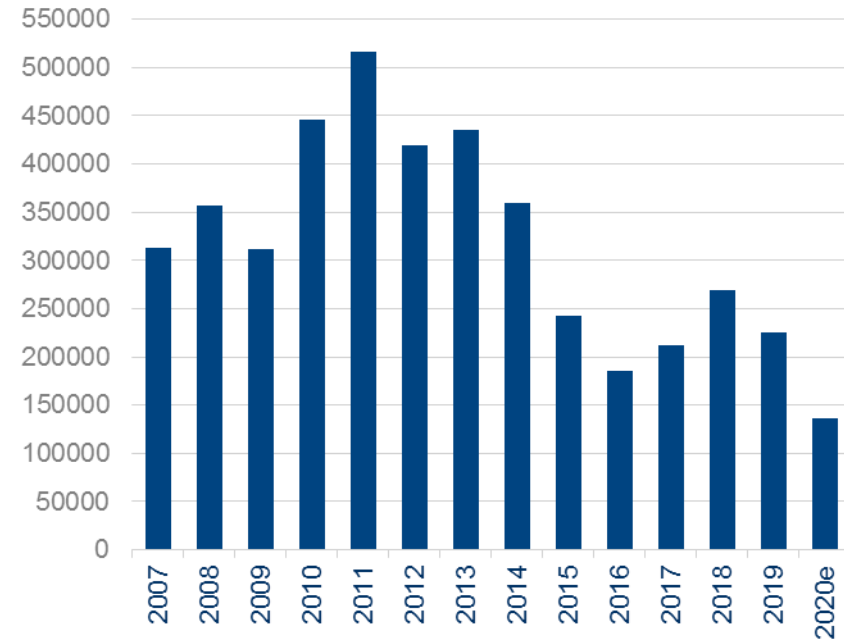
(IN UNITS; S.A.)



Source: BBVA Research and ADEFA.

## EXPORTS OF LIGHT VEHICLES

(IN UNITS; S.A.)

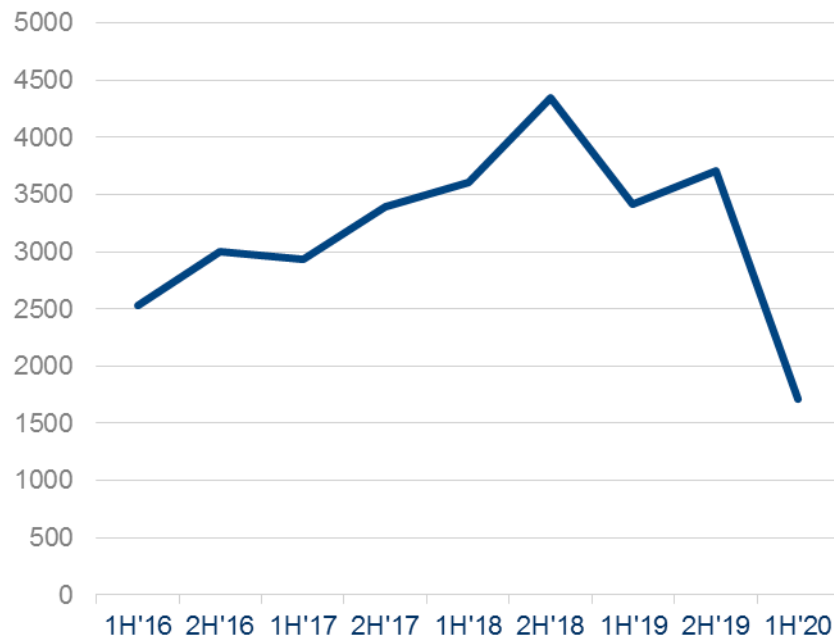


Source: BBVA Research and ADEFA.

# The sector's export complex has declined since 2018; Brazil concentrates 70% and ALADI increases its share at the expense of NAFTA

## AUTOMOTIVE EXPORT COMPLEX

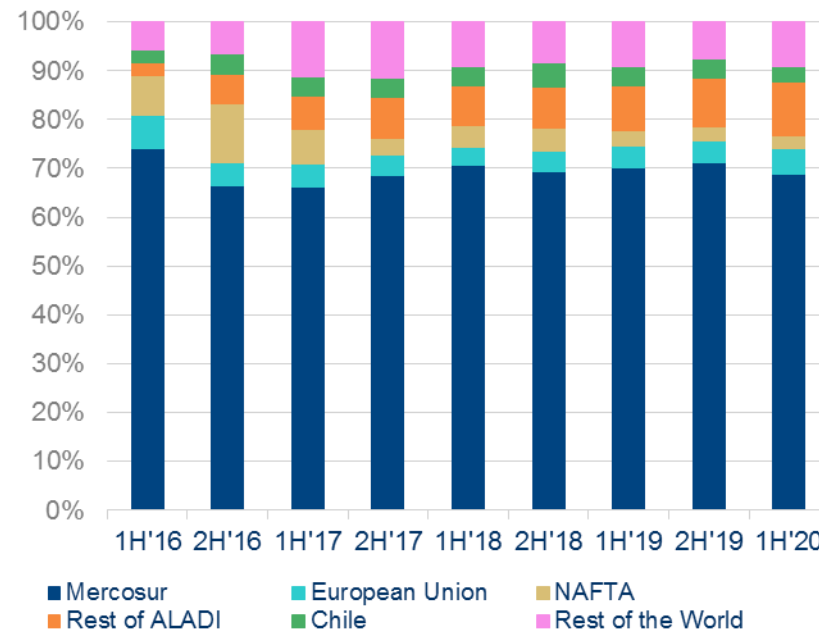
(USD MILLION)



Source: BBVA Research and INDEC.

## AUTOMOTIVE EXPORT COMPLEX

(% SHARE BY DESTINATION)

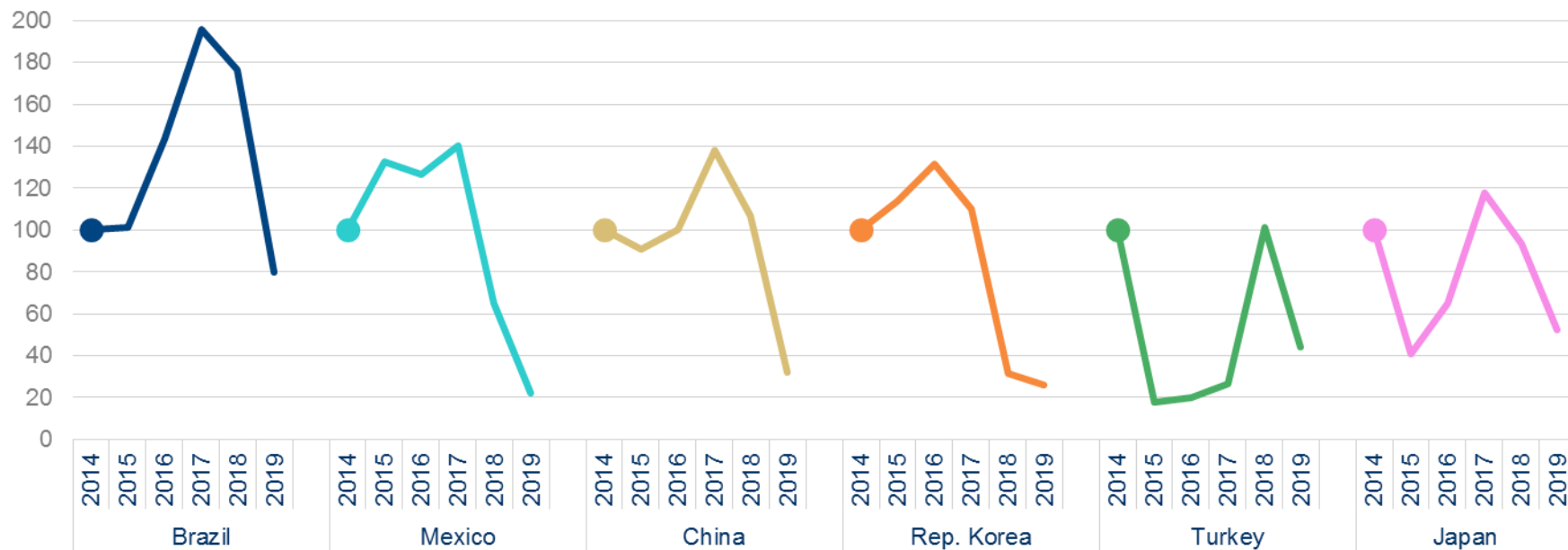


Source: BBVA Research and INDEC.

## Although the number of imported vehicles has contracted, their value in foreign currency is destabilizing the sector's trade balance

### IMPORTS OF LIGHT VEHICLES: MAIN ORIGINS

(IN UNITS; BASE 2014 = 100)



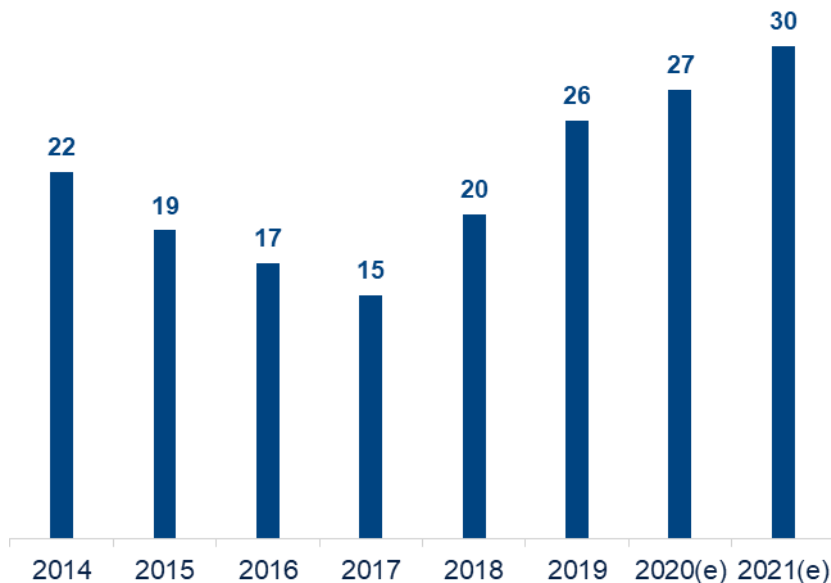
# 03

## Conclusions and projections

# Although consumers tend to use saved dollars to purchase cars, the mix of inflation, FX premium and COVID-19 makes it difficult to buy them

## AUTOMOBILE AFFORDABILITY

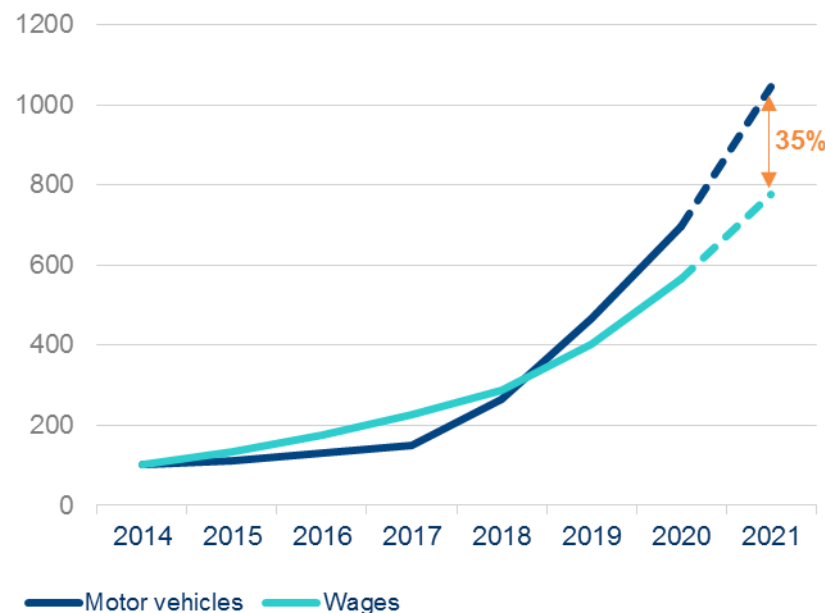
(AMOUNT OF MONTHLY WAGES NEEDED TO PURCHASE A 0KM CAR, MEASURED IN USD)



Source: BBVA Research INDEC, ADEFA and Ministry of Labor.

## AUTOMOBILE PRICES AND WAGES

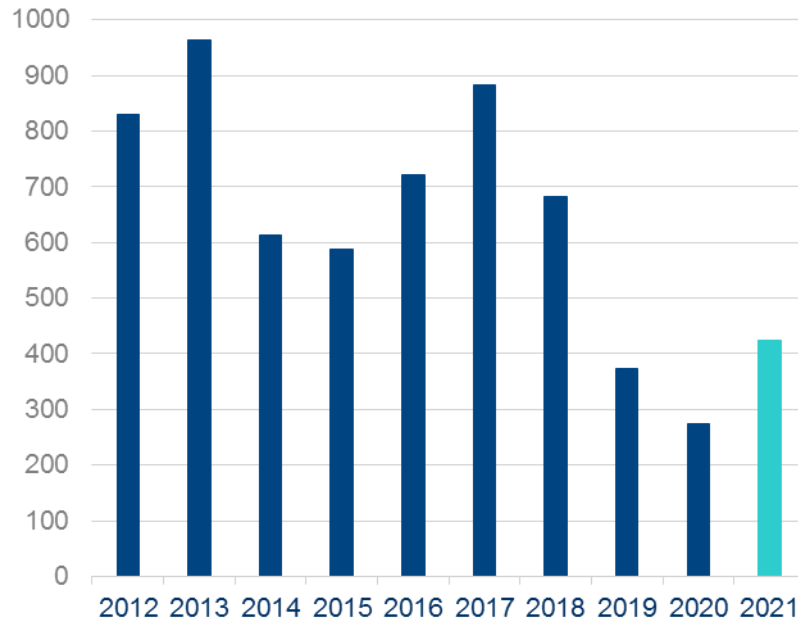
(BASE 2014 = 100)



Source: BBVA Research INDEC, ADEFA and Ministry of Labor.

## Car sales would rebound in 2021 to a slightly higher level than in 2019, but well behind the average of recent years

### CAR SALES (IN THOUSANDS UNITS)



- 2021 will bring with it an **economic recovery that will respond mainly to statistical reasons** rather than to genuine growth.
- **There are weak expectations of a strong improvement** as there is consensus that inflation will accelerate and that an FX rate correction is imminent, although it is not known what the authorities' actions will be.
- Social factors such as the increase in poverty and the worsening of the middle class, together with a persistently high unemployment rate, make for a **bleak outlook for the automotive industry** (although better than in 2020).

# Conclusions



## DOMESTIC MARKET

- Although a **general recovery is expected during 2021**, given the collapse of 2020, it will be somewhat lackluster as it will represent more of a statistical effect than genuine growth.
- **Inflation is expected to accelerate and FX rate uncertainty.**
- In addition, **real wages will continue to lag and employment will remain high**, thus affecting consumption and investment.



## AUTOMOTIVE SECTOR

- The industry continues to show signs of **structural problems**: mainly, the high dependence on imports of inputs (higher sales imply greater FX rate pressure due to the deficit in dollars) and the high tax burden (although export duties have been reduced, they only reach a few companies).
- **Exports are not expected to grow strongly in 2021** due to the moderation of Brazil's growth expectations.



## DEMAND FOR VEHICLES

- Automotive demand in the domestic market will **also recover with respect to 2020**, but will not have a strong boost due to the worsening affordability of vehicles.
- We forecast a sales level of around **420,000 units for 2021** based on our macroeconomic forecasts.

## This report was prepared by:

Mario Iparraguirre

Economist

mario.iparraguirre@bbva.com



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